

Foremost 5-2-05

We are honored to be here today to have the opportunity to share with you our views and concerns about the impact of the Governor's tax and job plan on our company

My name is Paul Stransky. I am the Director of Government Affairs for the Foremost Insurance Group of companies.

With me today is Jeff Pepper who is the Treasurer at Foremost.

I'd like to start off with a little background to give you an idea of who we are and the role we play in the community

- Foremost is a Michigan domiciled insurer and has been since it's founding in 1952. Since our beginning, we have been based in the Grand Rapids area. Our current location is just south of the airport.
- Foremost writes business in all 50 states.
- We are a specialty insurer. We are the largest writer of mobile homeowners insurance in the country. In addition, we write non-standard and dwelling fire home insurance, recreational vehicles, boats, yachts, motorcycles, snowmobiles, antique cars, and other items that one could classify as adult toys.
- Foremost is part of the Farmers Insurance Group, the third largest P&C insurer in the country. Globally, we are also part of Zurich Financial Services.
- Locally, Foremost has an employee base of over sixteen hundred people with a payroll of over sixty million dollars. Our local office is the national headquarters and main facility for Foremost.
- Foremost has grown and prospered in Michigan. Over the last three years, payroll has grown approximately twenty percent.
- Combined with our affiliated companies, current employment in the entire state is approximately two thousand people and a payroll in excess of one hundred and five million dollars. This is money that stays in Michigan. It is spent here to raise families, provide housing and support the futures for thousands of people, a tremendous benefit to the local economy.
- In 2004, just on the insurance we write in Michigan, we paid over one hundred and fifty million dollars in claims payments to our customers. This is money that goes straight back into the state's economy to repair or replace autos, fix homes, pay

medical bills, replace personal property, and provide financial stability in times of catastrophe.

- We invest in Michigan as well. We have invested well over one hundred twenty million dollars in municipal bonds in this state to help build schools, roads and support other important infrastructure improvements for our state.
- Foremost is a good corporate citizen. We work hard to be a part of the community in which our employees live and work. Foremost and its employees have been proud sponsors and participants in many worthy causes and events, for example:
- For six years we were the corporate sponsor of the Foremost / Farmers Senior Charity Classic in Grand Rapids. As a result numerous local charities have benefited:
 - 1999 – Gilda’s Club, Home Repair Services and Joy Youth Fellowship
 - 2000 – Grand Rapids Youth Commonwealth, Inner City Christian Federation and Indian Trails Camp.
 - 2001 – The National Hispanic Center of Western Michigan, YWCA Domestic Crisis Center and Building Block.
 - 2002 – DA Blodgett’s Big Brothers, Big Sisters
 - 2003 – My Sister’s House
 - 2004 – In the Image
- In addition, Foremost and its employees have been proud corporate sponsors for such organizations as
 - Juvenile Diabetes Foundation
 - March of Dimes “Blue Jeans for Babies” and Walk America
 - Home Repair Services Tool Library
 - United Way (employee and company)
 - Foremost’s Butterflies are Blooming exhibit at the Frederik Meijer Gardens.
 - Grand Rapids Children’s Museum
 - American Cancer Society Five Star Investors:
 - Making Strides Against Breast Cancer Walk
 - Fund Raising for the ACS
 - Tell-A-Friend Program
 - Non-smoking workplace
 - Cancer information for employees
 - John Ball Park Zoo
 - Habitat for Humanity
 - WGVU Public Broadcasting
 - DeVos Children’s Hospital
 - National Down Syndrome Society
 - Indian Trails Camp
 - Grand Rapids Civic Theatre
 - Hope Network

- Gilda's Club
- Make a Wish Foundation
- Special Olympics
- New Heart Center
- Christian Counseling Center
- Frederik Meijer Gardens, Gardens of Art Campaign

On average over the last six years, Foremost and its employees have contributed over half a million dollars each year to a combination of these charities

In the area of local business development we actively participate in:

- Grand Rapids Chamber of Commerce
- The Right Place
- Mackinac Center

Our employees participate in numerous additional community volunteer programs including

- FACTS tutoring – students in the Grand Rapids Public Schools System
- As Junior Achievement volunteer instructors
- Regular blood drives
- The Grand Rapids Jaycees Santa Claus Parade
- The Alto Fall Festival
- Various community support through school year books and sports programs

I present this not as an opportunity to brag, but to demonstrate our long-term commitment to our community and to Michigan as a whole. I'm sure most, if not all, the companies you'll hear from today have similar stories. What I want to make sure of is that you understand just how seriously our company and employees and the insurance industry take corporate responsibility and community involvement.

That's why we're very concerned with the Governor's tax plan and the impact it will have on our business and on our customers. If implemented as proposed, in Michigan, Foremost will see a tax increase of two hundred and sixty one percent, almost three times what we are paying today.

If we add in our affiliate non-domesticated companies, it amounts to approximately four million dollars more in taxes per year. And frankly, I believe those figures are conservative.

Retaliatory taxes, which are taxes that we must pay to a state if our home tax rate is higher than theirs, would result in an increase to Foremost in other states of easily over one million dollars.

What would be the effect of this on Foremost?

Does this mean we will pack our bags and leave Michigan? We don't want to do that.

Does this mean that Michigan will now become a place where it is more expensive to conduct business? It absolutely will and everyone in the state will suffer as a result.

That's because the person who pays for this in the long run is the consumer. That's right – it's the citizens of Michigan who'll bear the cost of these tax increases. But they're not the only ones. We'll also be forced to ship over one million dollars to other states for retaliatory taxes. This will also have the effect of making Michigan domiciled companies less competitive in those states in order to fund the increased tax rates. This will put Michigan-based companies, including ours, at a competitive disadvantage in selling their products to customers in other states.

This type of business pressure does not help companies to grow. Tripling the taxes we pay will damage our competitiveness outside the state and will make it harder for us to promote job growth here in Michigan.

We are in an incredibly competitive business, one that forces us to constantly search for ways to be more competitive. If this tax shift is imposed, we will be faced with an increasing weight of taxation. As Michigan businesses struggle to survive and prosper and as the state struggles to find a solution to the problems of its economic and business environment, burdening businesses with additional taxation only makes that struggle harder.

Plus, this tax shift is a proposal built on what appears to be inaccurate information:

The Governor's proposal compares tax rates in surrounding states to Michigan's current rates and indicates that this proposed shift will just bring us up to par with them. However, the tax rates in her proposal appear to be incorrect.

	State Insurance Tax Rates Quoted in the Governor's Proposal	Current State <u>Tax Rates</u>
Ohio	2.4	1.4
Indiana	1.4	1.3
Illinois	2.0	.5
Wisconsin	2.0	retaliatory

States surrounding Michigan have reduced their premium taxes in recent years in order to keep insurance jobs in state and keep premiums lower, making them more competitive in the marketplace. Certainly we in the industry, seeing this happen in neighboring states, have to question why Michigan is determined to head in a totally different direction.

Not only would the Governor's proposal significantly boost taxes for our organization, they would further burden an industry that pays, in addition to the Single Business Tax, for a number of special "state-mandated" programs. These include:

- Subsidized insurance funds or so-called “high-risk” pools, which provide below-cost coverage for some of the state’s citizens and businesses. These are costs that are in addition to our business taxes.
- The Michigan Automobile Placement Facility.
- The Property and Casualty Guaranty Association
- Michigan Basic Property Association, and more.

The amount the insurance industry pays in mandated fees and assessments is quite large. Attached a list used by one of our tax specialists at Foremost to keep track of the different fees and assessments that may apply. This gives you an idea of the breadth of what we are talking about.

The Governor’s plan hurts some businesses while helping others. In tough economic times, the focus of government should be in creating winners – not unfairly burdening one business group to deliver a tax cut to another. Picking winners and losers is not the role of government in our economy.

Today, it’s estimated that that the insurance industry pays approximately 11% of the business tax burden in Michigan. If this proposal goes into effect, that percentage would more than double and eventually those costs would be passed on to consumers. In tough economic times, burdening consumers with higher costs for essential products just doesn’t make sense.

NOTES TO TAX RETURN

Note 1: Enter and describe other taxes imposed by your state of domicile for items such as Firemen's or Police Pension, Firemen's Relief, Fire Department, etc. not included on lines 1 or 2. See additional partial listing below. **Attach completed copies of all state tax returns for your state of domicile using Indiana premiums in calculation.**

Note 2: Enter assessments made by your state of domicile against Indiana companies writing Worker's Compensation Insurance and for which premium tax credit is not given. These assessments are known by various titles but would include Subsequent Injury Fund, Supersedeas Fund, Administrative Assessment, Special Disability Assessments, Maintenance Fund, Occupational Safety Assessments, etc. See Additional partial listing of such items below. Show all Calculations.

Note 3: Enter other assessments made by your state of domicile against Indiana Companies for which credit is not given. To be included are assessments such as Fraud Bureau, Arson Investigation, statistical agent services operated by the Insurance Department, funding of specialized Insurance Department general operating/maintenance expense assessments, etc. See additional partial listing of such items below. Show calculations where needed.

The categorical description of taxes, assessments and fees listed below are not intended to be all-inclusive. If applicable to your state of incorporation, proper entry should be made on the Retaliatory Statements. It is the responsibility of the insurer to disclose, in the Retaliatory Statements, all charges made by its state of incorporation against foreign insurers which, by IC 27-1-20-12 (a), are subject to retaliation.

YOU ARE OBLIGATED TO REPORT ALL ASSESSMENTS OF DOMICILE, LISTED OR NOT. FAILURE TO PROVIDE FULL DISCLOSURE WILL SUBJECT THE INSURER TO THE LATE PAYMENT PENALTIES SPECIFIED BY INDIANA INSURANCE CODE.

Agent's Fingerprint Fee	Motor Vehicle Insurance Merit Rating Board
Arson, Fire and Fraud Prevention Account	Motor Vehicle Maintenance Tax
Assessment for Maintenance Bureau	Motor Vehicle Safety (Financial) Responsibility Act Expense
Assessment to Fund Ins. Dept. Budget Deficiency	Municipal License Tax
Assessment to Fund Insurance Department	Municipal or Local Taxes, Fees, or Occupational
Consultants or Specialized Services	Licenses for which
Attorney Gen. Expenditure, Assmt. For Consumer Affairs	Premium Tax Credit is not given
Bureau of Fraudulent Claims	Municipal Tax
Business Profit Tax	Net Income Tax
Capitol Stock Tax	Occupational Safety Standard Act
Casualty Insurance Maintenance Tax	Ocean Marine Underwriting Profit Tax
Certificate of Compliance Fee	Permit Fee
Certificate of Deposit or Valuation	Permit Tax
Commissioner Regulatory Trust Fund	Police Pension Fund
Corporation Excise Tax	Privilege License Fee
Corporation Registration Fee or Permit	Privilege Tax
Corporation Tax	Property & Liability Insurance Security Fund
County License Fee	Public Motor Vehicle Liability Security Fund
Credit Insurance Fee	Rate Division Assessment
Curative Centre Fund	Reopened Case Fund
Death and Permanent Total Disability Bank Fund	Single Business Tax
Dependency Death Cause	Special Automobile Association
Deposit Fee	Special Disability (W/C) Assessment
Deposit Tax	Special Fund for Active Cases
Disability (Non-occupational) Benefits Law Expense	Special fund for Disability Benefits
Downtown Improvement and Parking Tax	Special Fund Worker's Compensation
Expense of Administering Motor Vehicle Security	Special Medical Malpractice Association
Expenses of State Board of Worker's Compensation	Special Occupational Health and Safety Fund
Fee for Furnishing Certified Copy of Annual Statement	State Fire Marshall Regulatory Assessment
Filing Examination Report Fee	State Operated Statistical Agent Services
Filing papers and/or Other Filing Fees	State Rating Bureau, Division of Insurance Operating Assessment
Fire Company Maintenance Tax	Statutory Deposit Maintenance/Service Fee
Fire Department Tax Assessment or Charge	Stock Worker's Compensation Security Fund
Fire Fighting Academy	Supersedeas Fund (W/C)
Fire Insurance Tax, Assessment or Charge	Synopsis Preparation Fee
Franchise Tax	Underwriting Association Assessment
Health Maintenance Organization Fund Tax	Uninsured Employer's Fund
Ins. Dept. Gen. Operation Expense Assessment	Vending Machine License Fee
Insurance Advisory Association	Veterans Second Injury Fund
Insurance Checking Office	Vocational Rehabilitation Fund
Insurance Examining Bureau	Worker's Compensation Administrative Assessment
Insurance Rating Commission Assessment	Worker's Compensation Board Expense
License Tax	Worker's Compensation Maintenance Tax
Major Medical fund	Worker's Compensation Rate Adjustment Fund
Michigan Insurance Bureau	Worker's Compensation Rehabilitation Div. Tax
Minimum Direct Written Premium	Workmen's Compensation Special Fund
Motor Vehicle Accident Indemnification Corporation Expense	Workmen's Compensation Security Fund
Motor Vehicle Financial Security (compulsory) Act Expense	